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FM AMEMBASSY NEW DELHI
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INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE
RUCPDOG/DEPT OF COMMERCE WASHDC
RHEBAAA/DEPT OF ENERGY WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RULSDMK/DEPT OF TRANSPORTATION WASHDC
RHMFIUU/FAA NATIONAL HQ WASHINGTON DC
RUEHRC/DEPT OF AGRICULTURE WASHDC

UNCLAS SECTION 01 OF 02 NEW DELHI 002532

SIPDIS
SENSITIVE

STATE FOR SCA/INS AND EEB
USDOC FOR ITA/MAC/OSA/LDROKER/ASTERN/KRUDD
DEPT PASS TO USTR CLILIEFELD/AADLER/CHINCKLEY
DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA MNUGENT
TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN

E.O. 12958: N/A

TAGS: [EAGR](#) [EAIR](#) [ECON](#) [ECPS](#) [EFIN](#) [EINV](#) [ENRG](#) [EPET](#) [ETRD](#) [BEXP](#)
KIPR, KWMN, PHUM, SENV, IN, PK

SUBJECT: INDIA RECEPTIVE TO NEW PAKISTAN TRADE POLICY

¶1. (SBU) Summary: India's Ministry of Commerce and Industry has responded appreciatively to the expanded positive list of permissible trade with India that Pakistan announced in July, while Indian industry has also indicated receptivity to new trade opportunities, seeing a "new breed" of Pakistani businessmen with whom to trade. The gap between potential and actual Indo-Pakistani trade is not about to close tomorrow, but India's response to Pakistani overtures suggests slow but steady trade expansion is in the works. End Summary.

PAKISTAN'S NEW TRADE POLICY

¶2. (U) Pakistan Commerce Minister Chaudhry Ahmed Mukhtar announced a new trade policy on July 18. In his speech, reported in Indian press, he explained the number of items that can be traded with India was expanded to take advantage of cheaper raw materials sourced from India. "India is becoming an important economic partner, and trade with it will be in the interest of Pakistan," he was quoted as saying. The trade expansion was modest -- adding just 136 items to the positive list (explicitly permitted tradable items), bringing the total to 1,938 goods. India-Pakistan trade is heavily tilted to India's advantage - it sold roughly \$1.8 billion to Pakistan in 2007 compared to buying just \$350 million from its neighbor. The expanded trade is likely to widen the trade gap, but with cheaper inputs, that could make Pakistani goods more competitive. The trade policy also invites Indian investment for the first time.

Ministry of Commerce Welcomes Enhanced Trade

¶3. (SBU) Econoff met with Indian Ministry of Commerce and Industry Joint Secretary (Regional Trade) Rajiv Kher to discuss regional trade. Kher began by observing that trade within South Asia was the lowest sub-regional economic integration anywhere in the world, with most South Asian countries conducting only 5% of their total trade with their regional neighbors. Kher then conceded that recent Indian export restrictions on food, cement, and steel products were affecting Nepal. Once this was brought to the Indian government's attention, Kher stated, the government moved to exempt Nepal from export constraints, such as in cement. The Ministry of Commerce also engaged the Ministry of Finance to exempt Nepal from the steel export duty. The Joint Secretary added that his Ministry had proposed to other ministries that all country members of SAFTA (South Asia Free Trade Agreement) be automatically exempt from

Indian export bans. However, he explained, there were concerns that such a blanket exemption would allow the proliferation of third-country shipment from countries outside SAFTA abusing the duty-free status given to SAFTA members. The final government decision was to require SAFTA member countries to ask the GOI for an exemption, which would be granted once requested.

¶4. (SBU) Turning to Pakistan, Kher noted that India was hearing "positive sounds" from Pakistan, pointing to the new Trade Policy and Trade Policy Speech. He welcomed the Pakistan Commerce Minister's statements that India was a good trade partner for Pakistan. Kher pointed to a rise in Indian imports of cement from Pakistan that would "substantially" raise Pakistan exports to India.

Although Kher appreciated that 136 items were added to Pakistan's positive trade list with India, he indicated that the amount was disappointing to his office, because they had been led to believe that the expansion would be even larger. Kher singled out high speed diesel among the new tradable items as holding the potential to noticeably increase bilateral trade. He noted press reports estimating that Pakistan could buy \$4 billion in diesel from India, but he was unsure that India had that much more available to export.

Kher estimated that India exports \$12 billion in diesel to the region right now and thought that if India were to meet all of Pakistan's diesel needs, India would have to lower its exports elsewhere.

¶5. (SBU) Kher ended on a positive note, declaring that bilateral trade between India and Pakistan was going well and reiterating that Pakistan was making "the right noises." He also noted efforts to improve the "operationalization" of trade. Kher stated that most Indo-Pak trade went through the sea route, since in railways there

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is insufficient compatibility of technology, especially in wagon weight capacity. Kher also identified the goods shed in Lahore as undercapacity. He acknowledged that investments were needed on infrastructure in both sides, but that there were huge prospects for improvement and enhanced trade.

Indian Businesses Welcome Enhanced Trade Potential

¶6. (SBU) In a meeting late last month with Assistant Secretary of State for South and Central Asia Richard Boucher, members of the Confederation of Indian Industry (CII) voiced support for the positive trade signals coming from the Pakistani government. Dhruv Sawhney, Chairman and Managing Director of Triveni Engineering and Industries, noted that Former Pakistan PM Nawaz Sharif's son had recently visited him at his office to inquire about trade possibilities. [Note: Sawhney's family is from Pakistan's Northwest Frontier Province. End note.] Sawhney opined that the younger Sharif was part of a new "different breed" in Pakistan who was very interested in trading with India. Sharif had approached Sawhney about the possibility of buying turbine machinery used in sugar processing. Sawhney noted positively that Sharif had not suggested circumventing trade and customs requirements by going through Dubai.

(Note: Analysts estimate that circumvented trade between India and Pakistan through Dubai amounts to as much as \$4 billion a year, compared with roughly \$2 billion in legal, declared bilateral trade. End note.)

¶7. (SBU) The industry leaders agreed that the new set of leaders in Pakistan appear to be more forwarding leaning on expanding bilateral trade without waiting for political breakthroughs. Ranbaxy Chairman Harpal Singh welcomed the new attitude, noting the mutual benefits of trading with neighbors rather than from buying farther afield. For example, he noted that for construction projects in Amritsar, Punjab, which borders Pakistan, it is cheaper to import cement from Pakistan than to buy it from within India.

Comment

¶8. (SBU) With restrictions on tradable goods, trade routes, and visas, there are more barriers to trade between India and Pakistan than there are bridges. Even so, trade between the two countries

has been growing at more than 50% for the last few years. Pakistan's newest signals on expanding trade should help sustain that trend. It appears that both India and Pakistan are recognizing that, in a world of rising input costs and more expensive transport costs, it pays to source closer to home. If both countries were to improve their shared infrastructure of roads and rail for more trade volume, the benefits would be even higher.

MULFORD